

Township of Brookfield

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

March 31, 2007

Township of Brookfield

TABLE OF CONTENTS

March 31, 2007

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
REPORT OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	5-6
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	7-12
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	13-15

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Township Board
Township of Brookfield
Eaton County, Michigan

Compliance

We have audited the compliance of the Township of Brookfield with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major Federal program for the year ended March 31, 2007. The Township of Brookfield's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major Federal program is the responsibility of the Township of Brookfield's management. Our responsibility is to express an opinion on the Township of Brookfield's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Township of Brookfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Township of Brookfield's compliance with those requirements.

In our opinion, the Township of Brookfield complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ended March 31, 2007.

Internal Control Over Compliance

The management of the Township of Brookfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Township of Brookfield's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township of Brookfield's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employee's, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Township's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Township's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Brookfield as of and for the year ended March 31, 2007, and have issued our report thereon dated September 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Township of Brookfield's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Township Board, the pass-through entities, and the federal awarding agencies and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2007

Township of Brookfield

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended March 31, 2007

<u>Federal Grantor and Pass-through Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Program Award Amount</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY Passed through Michigan Department of Treasury and Eaton County Capitalization Grants for Clean Water State Revolving Funds	66.458	N/A	<u>\$ 965,944</u>

Township of Brookfield

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

March 31, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Township and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Township Board
Township of Brookfield
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining information of the Township of Brookfield as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Brookfield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-4 and 2007-1 through 2007-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-3, 2007-1, 2007-2, and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-4, 2006-5 and 2006-6.

This report is intended solely for the information and use of management and Board of Trustees of the Township of Brookfield, others within the Township, federal awarding agencies and pass through entities, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

September 28, 2007

Township of Brookfield
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u>	Yes	<u> </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
64.558	Capitalization Grants for Clean Water

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2006-1 Unfavorable Budget Variances and Inadequate Review of General Ledger Reporting

Condition: As explained in Note H to the financial statements, various activities within the General Fund of the Township exceeded the amounts appropriated. Additionally, during our consideration of the Township's internal controls, we noted that although the Township appropriately adopted an annual budget for the General Fund, it does not appear as though the budgets are periodically compared with actual results, such as through a monthly report that would be approved by the Board and documented in the minutes of the Board meetings. This issue was noted and reported in our audit comments for the prior year.

Criteria: The Uniform Budgeting and Accounting Act requires the Township Board to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended March 31, 2007

2006-1 Unfavorable Budget Variances and Inadequate Review of General Ledger Reporting - continued

Effect: The Township is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend that the Township management provide the Board periodic financial reports. We also recommend that the Board review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Township's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and the Township Board should provide for budget amendments prior to exceeding amounts appropriated.

Corrective Action Response: We will monitor the budget more closely in the future.

2006-2 Lack of Capital Asset Policy

Condition: During the course of our audit, it was noted the Township did not have a formal written capitalization policy in place at year-end. This policy would set forth, among other things, a dollar threshold for items purchased by the Township, which would be considered material, long-lived assets that should be capitalized and depreciated. This issue was noted and reported in our audit comments for the prior year.

Criteria: The Township must be able to record and report financial data reliably to assure sound internal control over the financial reporting.

Effect: The Township has no formal process for determining which assets should be capitalized, and thus might fail to capitalize and report a material asset on the financial statements.

Recommendation: We recommend the Township develop a written capitalization policy and formally adopt the policy through Board action.

Corrective Action Response: This policy is being implemented.

2006-3 Inadequate Segregation of Duties

Condition: During our consideration of the Township's internal controls and our assessment of fraud risk, we noted that the Township does not have an adequate overall internal control design. Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, and prepares the bank reconciliation. This issue was noted and reported in our audit comments for the prior year.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

Effect: While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Recommendation: We recommend that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

Corrective Action Response: Due to our small staff, we don't foresee any possible changes. However, a trustee on the Board has offered to provide more oversight related to bank reconciliations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended March 31, 2007

2006-4 Lack of Double Entry Accounting System

Condition: During our audit procedures, we noted that the Township does not employ a true double-entry accounting system. Various receipt, disbursement, and checkbook-type ledgers are maintained, but there are no records of balance sheet accounts that can be related to the existing ledgers.

Criteria: The Uniform Accounting Procedures Manual issued by the Department of Treasury details requirements related to the basic financial records, documents, and procedures that are applicable to all counties and local units of government in Michigan. That manual states that a full general ledger must be maintained that documents the history of all assets, liabilities, fund balances, revenues, and expenditures. This issue was noted and reported in our audit comments for the prior year.

Effect: The Township is not fully complying with requirements set forth by the Michigan Department of Treasury.

Recommendation: We recommend the Township implement a double-entry accounting system, whether manual or computerized that will help to maintain all of the general ledger accounts required by the Michigan Department of Treasury.

Corrective Action Response: This recommendation will be adopted in the future. We are currently researching various software programs to use as computerized general ledger systems.

2006-5 Lack of Investment Policy

Condition: During the course of our audit, and through discussions with management, it was noted that the Township's current investment policy does not comply with GASB Statement No. 40. This issue was noted and reported in our audit comments for the prior year.

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 40 requires governmental entities to inform financial statement users about deposit and investment risks that could affect the entity's ability to provide services and meet its obligations as they become due. This statement was effective for the year ended March 31, 2006 for the Township.

Effect: The Township's financial statements may not be informative to users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

Recommendation: We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. In the absence of a policy that addresses deposit and investment risks, the notes to the financial statements are required by generally accepted accounting principles to include a disclosure that such policies do not exist.

Corrective Action Response: We will amend our investment policy to address the risk areas specified in GASB Statement 40.

2006-6 Lack of Various Operational Policies and Procedures

Condition: Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas: fraud risk management program, conflict of interest policy, and disaster recovery plan. This issue was noted and reported in our audit comments for the prior year.

Township of Brookfield

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended March 31, 2007

2006-6 Lack of Various Operational Policies and Procedures - continued

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible.

Effect: Township operations may not be as efficient and effective as they could be.

Recommendation: We recommend the Township develop, formally adopt, and implement written procedures and policies in the following areas:

Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve active searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Conflict of interest policy - A conflict of interest policy will clarify the Township's position on ethical behavior and communicate that position to employees and Board members. We recommend the Township develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Board members. The Township should also obtain conflict of interest disclosure statements from its employees and Board members.

Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.

Corrective Action Response: This recommendation will be adopted.

2007-1 Material Journal Entries

Condition: During the course of our audit, material journal entries for the proper recognition of revenues and expenditures were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining and monitoring internal controls, and for the fair presentation in the financial statements including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls over financial reporting.

Effect: The financial statements required material journal entries by the auditors in order to ensure fair presentation in accordance with U.S. generally accepted accounting principles.

Recommendation: We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Once we have a computerized general ledger system in place, we will make journal entries so that audit adjustments are not necessary.

Township of Brookfield

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended March 31, 2007

2007-2 Financial Statements Prepared in Accordance with Generally Accepted Accounting Principles

Condition: During the course of our audit, it was noted employees and/or management have limited technical expertise to prepare the Township's financial statements and notes to the financial statements in accordance with accounting principles generally accepted in the United States of America.

Criteria: The preparation of the Township's financial statements and notes in accordance with accounting principles generally accepted in the United States of America is the responsibility of management. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with accounting principles generally accepted in the United States of America. The auditor cannot be a part of the internal controls.

Effect: The Township is unable to take responsibility of the preparation of its financial statements and notes in accordance with accounting principles generally accepted in the United States.

Recommendation: We recommend the Township consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand the requirements of preparing the financial statements and so that they may take responsibility for the statements and the appropriate disclosures.

Corrective Action Response: Due to our small staff, we do not foresee any changes in this area.

2007-3 Lack of Documentation of Employee Compensation

Condition: During our testing of controls over payroll disbursements, we noted that authorized employee pay rates are not formally documented.

Criteria: The Township must be able to authorize and report financial data reliably to assure sound internal control over the financial reporting.

Effect: Without formal documentation of employee compensation the Township could potentially pay employees at an unauthorized rate.

Recommendation: We recommend the Township formally document approved employee wages and wage increases.

Corrective Action Response: Currently, we pay the employees what is in the budget, however, we will formally document authorized pay rates in the board minutes.

Township of Brookfield

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended March 31, 2007

Section III - Federal Award Findings and Questioned Costs

None

Township of Brookfield

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended March 31, 2007

2006-1 Unfavorable Budget Variances and Inadequate Review of General Ledger Reporting

Condition: As explained in Note H to the financial statements, various activities within the General Fund of the Township exceeded the amounts appropriated. Additionally, during our consideration of the Township's internal controls, we noted that although the Township appropriately adopted an annual budget for the General Fund, it does not appear as though the budgets are periodically compared with actual results, such as through a monthly report that would be approved by the Board and documented in the minutes of the Board meetings. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Criteria: The Uniform Budgeting and Accounting Act requires the Township Board to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The Township is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend that the Township management provide the Board periodic financial reports. We also recommend that the Board review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Township's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and the Township Board should provide for budget amendments prior to exceeding amounts appropriated.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.

2006-2 Lack of Capital Asset Policy

Condition: During the course of our audit, it was noted the Township did not have a formal written capitalization policy in place at year-end. This policy would set forth, among other things, a dollar threshold for items purchased by the Township, which would be considered material, long-lived assets that should be capitalized and depreciated. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Criteria: The Township must be able to record and report financial data reliably to assure sound internal control over the financial reporting.

Effect: The Township has no formal process for determining which assets should be capitalized, and thus might fail to capitalize and report a material asset on the financial statements.

Recommendation: We recommend the Township develop a written capitalization policy and formally adopt the policy through Board action.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.

2006-3 Inadequate Segregation of Duties

Condition: During our consideration of the Township's internal controls and our assessment of fraud risk, we noted that the Township does not have an adequate overall internal control design. Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, and prepares the bank reconciliation. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Township of Brookfield

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended March 31, 2007

2006-3 Inadequate Segregation of Duties - continued

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

Effect: While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Recommendation: We recommend that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.

2006-4 Lack of Double Entry Accounting System

Condition: During our audit procedures, we noted that the Township does not employ a true double-entry accounting system. Various receipt, disbursement, and checkbook-type ledgers are maintained, but there are no records of balance sheet accounts that can be related to the existing ledgers. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Criteria: The Uniform Accounting Procedures Manual issued by the Department of Treasury details requirements related to the basic financial records, documents, and procedures that are applicable to all counties and local units of government in Michigan. That manual states that a full general ledger must be maintained that documents the history of all assets, liabilities, fund balances, revenues, and expenditures.

Effect: The Township is not fully complying with requirements set forth by the Michigan Department of Treasury.

Recommendation: We recommend the Township implement a double-entry accounting system, whether manual or computerized that will help to maintain all of the general ledger accounts required by the Michigan Department of Treasury.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.

2006-5 Lack of Investment Policy

Condition: During the course of our audit, and through discussions with management, it was noted that the Township's current investment policy does not comply with GASB Statement No. 40. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 40 requires governmental entities to inform financial statement users about deposit and investment risks that could affect the entity's ability to provide services and meet its obligations as they become due. This statement was effective for the year ended March 31, 2006 for the Township.

Effect: The Township's financial statements may not be informative to users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended March 31, 2007

2006-5 Lack of Investment Policy - continued

Recommendation: We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. In the absence of a policy that addresses deposit and investment risks, the notes to the financial statements are required by generally accepted accounting principles to include a disclosure that such policies do not exist.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.

2006-6 Lack of Various Operational Policies and Procedures

Condition: Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas: fraud risk management program, conflict of interest policy, and disaster recovery plan. This issue was noted and reported in our audit comments for the prior year and is repeated in our current audit comments.

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible.

Effect: Township operations may not be as efficient and effective as they could be.

Recommendation: We recommend the Township develop, formally adopt, and implement written procedures and policies in the following areas:

Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve active searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Conflict of interest policy - A conflict of interest policy will clarify the Township's position on ethical behavior and communicate that position to employees and Board members. We recommend the Township develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Board members. The Township should also obtain conflict of interest disclosure statements from its employees and Board members.

Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.

Status: This condition existed for the year ended March 31, 2007, and is considered unresolved.